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SUBJECT: MILD FRENCH GDP GROWTH IN FIRST HALF OF 2007

REF: 06 Paris 7815

¶1. SUMMARY. In its March overview of the French economy, the National Statistical Agency INSEE forecast GDP growth to stay on an annual pace close to 2.0 percent in the first half of 2007. Economic growth is forecast to remain dependent on household consumption. Presidential elections are not expected to have any near-term impact on French economic growth. END OF SUMMARY

¶2. INSEE maintained its 2007 French GDP growth forecast (reftel) for Q-1 at 2.0 percent (annualized), but revised upward its Q-2 estimate to 2.4 percent GDP growth from 2.0 percent. INSEE forecast household consumption growth would accelerate to 3.6 percent in Q-2, from 2.8 percent in Q-1 after a mild winter. Oil prices at 55 USD per barrel would help inflation to remain very moderate (1.0 percent in February after 1.2 percent in January). INSEE forecast corporate investment will increase on the same moderate 3.0 percent pace compared with 2006. The trade deficit would shave 0.2 percent from GDP growth as export growth would remain lower than import growth.

¶4. INSEE reiterated its forecast of a decrease in the unemployment rate to 8.2 percent by the end of June, although it said the statistics may be changed after an annual employment survey.

¶5. INSEE Chief Economist, Eric Dubois, said "we are expecting economic growth to remain on annual pace close to 2.0 percent in the first half of 2007, which can be qualified as mild (NOT sluggish)." He insisted that economic growth was "leveling off." An analyst close to businesses and the financial community, who was surprised by this insistence, remarked to emboff that companies including medium-sized companies are profitable and intend to maintain hiring. To reach 2.25 percent, the mid-point of the government forecast, Dubois said "GDP has to increase 2.8 percent (annualized) in each of the last two quarters."

¶6. Risks in the INSEE forecast are mixed. On the one hand, there are still uncertainties about the U.S. real estate market landing. Turbulence in the financial markets could increase risk aversion and affect the world economy. On the other hand, economic growth in the euro zone could be underestimated and benefit France. INSEE did not provide an estimate of the impact of these risks on GDP growth.

¶7. The INSEE forecast is the last one before presidential elections on April 22 and May 6. Dubois said the campaign is not having any "perceptible real impact" on the French economy. The next INSEE forecast will be published in June.

Stapleton#